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February 21, 2007

AGENDA ITEM 4

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** State Legislative Proposal: Actual Provider Claims Payment Information
- II. **PROGRAM:** Legislation
- III. **RECOMMENDATION:** Staff recommends that the Board **sponsor** legislation that will require contracting health plans to provide CalPERS with actual provider claims payment information for all member health care services rendered at the individual level, including the provider contract allowance amounts.
- IV. **ANALYSIS:**

This legislative proposal would require a contracting health benefit plan to provide to the Board and CalPERS detailed provider claims payment data for each member, and contract allowance amounts for services billed for each individual health care provider. The information will be de-identified (the member cannot be identified) in compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA). This information will be proprietary and enable staff to more effectively analyze benefit plan designs, validate the true cost of health care, and reliably determine health program effectiveness during the health plan annual rate negotiation process. This proposal follows the recommendation of the Bureau of State Audits' report dated March 2005.

Background

Purchasers, such as CalPERS, contract with health plans to provide health services to our members. An integral part of the health plan's function is to provide an adequate network of health care providers to ensure that members have access to high quality health care services in the most cost-effective manner. Each health plan contracts with hospitals and other health care providers to determine the amount the health plan will pay for services delivered by its contracted provider. In exchange, the health plan places the provider on its list of preferred or authorized providers (the health plan's provider network), which frequently results in an increase in market share for the provider, as health plans encourage their members to use network providers.

CalPERS health plans currently provide billed charges, which are substantially higher (may exceed 60 percent) than the actual dollars paid to the provider. Many providers will not allow contracting health plans to disclose the actual provider-paid rate to CalPERS. As a result, CalPERS does not know the true cost of health care covered by the nearly \$5 billion it pays to the health plans for provider-delivered health care services.

Discussion

Identifying the Causes of Rising Health Care Costs

Health care costs continue to climb in California and across the country. Hospital care and physician services take the largest share of the health care dollar, accounting for 30 percent and 21 percent, respectively. By obtaining actual provider claims payments (including provider contract allowance amounts for billed services) on behalf of 1.2 million CalPERS members, CalPERS would be in a more advantageous position to negotiate better rates with its contracting health plans. This information would allow CalPERS to make fully informed decisions about benefit design, identify health care cost drivers, monitor health plan efficiency (e.g. disease management), and develop and evaluate new program offerings. In short, CalPERS needs to know the true value of the health care services its member receive.

Bureau of State Audits Report

In 2004, as a part of CalPERS overall strategy to alleviate the rising cost of health care, CalPERS reduced the size of its hospital provider network, instructing Blue Shield to contract with hospitals that achieve a certain threshold of cost and quality. Following that decision, the Joint Legislative Audit Committee requested that the Bureau of State Audits conduct an audit of CalPERS decision.

Among its findings, the audit found that Blue Shield's analysis appeared "reasonable," but questioned some elements that could have possibly overstated savings. CalPERS was unable to verify Blue Shield's cost model because Blue Shield could not provide CalPERS actual provider claims payments.

The audit concludes by recommending:

"The Legislature should consider enacting legislation that would allow CalPERS, during its contract negotiating process, to obtain relevant documentation supporting any analyses it will use to make decisions that materially affect the members of the health benefits program established by the Public Employees' Medical and Hospital Care Act."

Consistent with Other Reform Efforts and Public Policy

On August 22, 2006 President Bush signed the Executive Order titled *Promoting Quality and Efficient Health Care in Federal Government Administered or Sponsored Health Care Programs* that directs federal agencies that administer or support health insurance programs to take steps that will result in more complete and open information about the quality and price of health care. The purpose of the Executive Order is to promote health care value purchasing that is built around four cornerstones: 1) connecting the system, 2) measure and publish quality, 3) measure and publish price, and 4) create positive incentives. The federal government hopes similar commitments in the private sector and in state and local government will follow its action.

Additionally, the Governor has included in his recent health care initiative a component to enhance health care quality and efficiency. The Governor proposes to expand and strengthen the ability of the Office of Statewide Health Planning and Development to collect, integrate and distribute data on health outcomes, costs, utilization and pricing for use by providers, purchasers and consumers to inform and drive decision-making.

This legislative proposal is consistent with components of both the President's Executive Order, (specifically cornerstone #3), and the Governor's health plan initiative. This proposal seeks to obtain actual provider claims payments at the individual level for all health care services rendered; including the provider contract allowance amounts for each provider's billed services. This is a vital step in CalPERS efforts to provide its members and employers with high quality and cost-efficient health care.

Legislative History

2004 SB 1509 (Alpert) – Would prohibit health care providers, subject to specified conditions, from restraining competition by tying together the purchase of access to its facilities, products and services. Would require health care providers to disclose to a state agency all contracts between the providers and health care service plans, health insurers or health benefits third party administrators when contracting with the state. This bill died in committee. *CalPERS' Position: Sponsor*

Chapter 875 (AB 1629, Frommer) – Would require reporting of specified information about hospital affiliates and corporate entities. Require the Office of Statewide Health Planning and Development (OSHDP) to consult with labor, consumer and health care purchaser organizations regarding data reporting standards. Require OSHDP to publish risk-adjusted outcome reports for coronary angioplasty surgeries. This content was removed from the bill on August 16, 2004. *CalPERS' Position: Support*

2001 Chapter 898 (SB 680, Figueroa) – Expands the risk-adjusted medical outcome reports prepared by OSHDP. Requires reports on surgical

procedures to include data on hospital and surgeon performance. SB 680 also authorizes OSHPD to collect necessary data from hospitals and eliminates the sunset date on the hospital and health facility reporting requirements. *CalPERS' Position: Support.*

Proposed Changes

Staff recommends that the Board **sponsor** legislation that will require contracting health plans to provide CalPERS with actual provider claims payments made on behalf of each member for all health care services rendered, including the provider contract allowance amounts for services billed for each individual health care provider. The information would be provided in a de-identified format consistent with HIPAA, subject to CalPERS health information management policies, and held proprietary. This information would allow CalPERS to make fully informed decisions about benefit design, identify health care cost drivers, monitor health plan efficiency (e.g. disease management), and evaluate new program offerings and enable CalPERS to know the true cost of health care services provided to its members. This proposal follows the recommendation of the Bureau of State Audits' report dated March 2005.

V. STRATEGIC PLAN:

This supports Goal X of the CalPERS Strategic Plan.

- Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

Program Costs

The increased reporting requirements will help CalPERS verify that the costs charged by carriers and providers are justified. The information provided in response to the new reporting requirement will assist CalPERS in negotiating a fair, informed and equitable price for health care.

Administrative Costs

This bill will not impact CalPERS' administrative costs.

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